

**REPORT OF THE AUDIT OF THE  
FORMER ROCKCASTLE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**



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**CRIT LUALLEN**  
**Auditor of Public Accounts**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Buzz Carloftis, Rockcastle County Judge/Executive  
Honorable Shirley Smith, Former Rockcastle County Sheriff  
Honorable Darrell Doan, Rockcastle County Sheriff  
Members of the Rockcastle County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the former Rockcastle County Sheriff's Settlement - 2002 Taxes as of January 5, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the former Rockcastle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
FORMER ROCKCASTLE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**

**ROSS & COMPANY, PLLC**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER ROCKCASTLE COUNTY SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for the former Rockcastle County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The former Sheriff collected taxes of \$1,812,887 for the districts for 2002 taxes, retaining commissions of \$75,047 to operate the Sheriff's office. The former Sheriff distributed taxes of \$1,737,821 to the districts for 2002 Taxes. Refunds of \$4,666 are due to the former Sheriff from the taxing districts.

#### **Report Comments:**

- The Sheriff Should Close His Tax Account By Collecting All Receivables And Paying All Liabilities Owed
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$240,711 to Protect Deposits
- The Sheriff Should Pay Gross Tax Collections To The Board Of Education
- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The former Sheriff's deposits were not insured and collateralized by bank securities or bonds.





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Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the former Rockcastle County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Rockcastle County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Shirley Smith, Former Rockcastle County Sheriff

Honorable Darrell Doan, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Close His Tax Account By Collecting All Receivables And Paying All Liabilities Owed
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$240,711 To Protect Deposits
- The Sheriff Should Pay Gross Tax Collections To The Board Of Education
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -  
November 18, 2003

ROCKCASTLE COUNTY  
SHIRLEY SMITH, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 193,693	\$ 240,807	\$ 1,094,103	\$ 353,359
Tangible Personal Property	17,391	18,935	88,723	96,121
Intangible Personal Property				14,134
Franchise Corporation	20,860	23,061	107,922	
Additional Billings	26	32	147	246
Limestone, Sand, and Mineral Reserves	135	168	761	246
Fire Protection	1,723			
Adjusted to Sheriff's Receipt	(1)	32	(86)	9
Gross Chargeable to Sheriff	<u>\$ 233,827</u>	<u>\$ 283,035</u>	<u>\$ 1,291,570</u>	<u>\$ 464,115</u>
<u>Credits</u>				
Exonerations	\$ 2,177	\$ 2,691	\$ 12,228	\$ 4,017
Discounts	2,513	3,064	13,954	5,335
Charges Transferred to Incoming Sheriff	42,088	51,679	235,152	84,757
Uncollected Franchise	<u>1</u>	<u>1</u>	<u>3</u>	
Total Credits	<u>\$ 46,779</u>	<u>\$ 57,435</u>	<u>\$ 261,337</u>	<u>\$ 94,109</u>
Taxes Collected	\$ 187,048	\$ 225,600	\$ 1,030,233	\$ 370,006
Less: Commissions *	<u>8,237</u>	<u>9,588</u>	<u>41,209</u>	<u>16,013</u>
Taxes Due	\$ 178,811	\$ 216,012	\$ 989,024	\$ 353,993
Taxes Paid	178,931	216,177	989,832	352,881
Refunds (Current and Prior Year)	<u>384</u>	<u>447</u>	<u>2,010</u>	<u>1,844</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (504)</u>	<u>\$ (612)</u>	<u>\$ (2,818)</u>	<u>\$ (732)</u>

\* and \*\* See page 4

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY  
SHIRLEY SMITH, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES  
January 5, 2003  
(Continued)

\*Commissions:

10% on	\$	10,000
4.25% on	\$	772,654
4% on	\$	1,030,233

\*\* Special Taxing Districts:

Library District	\$	(126)
Health District		(233)
Extension District		(193)
Soil Conservation District		<u>(60)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(612)</u></u>

ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 5, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$240,711 of public funds uninsured and unsecured.

ROCKCASTLE COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 5, 2003  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official on November 5, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,030,640
Uncollateralized and uninsured	<u>240,711</u>
Total	<u><u>\$ 1,371,351</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 23, 2002 through January 5, 2003.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$2,163 as interest income on 2002 taxes. As of November 18, 2003, the Sheriff owes \$156 in interest to the school district and \$145 in interest to his fee account.



## COMMENTS AND RECOMMENDATIONS



ROCKCASTLE COUNTY  
SHIRLEY SMITH, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of January 5, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Close His Tax Account By Collecting All Receivables And Paying All Liabilities Owed

The proper distribution of tax money collected by the Sheriff requires the collection of receivables (including overpayments to some taxing districts) and the payment of these funds to the appropriate taxing districts. The following net collections and net payables should be made:

Money due from Others:

State	\$ 732
County	504
School District	2,818
Library District	126
Health District	233
Extension District	193
Soil Conservation District	<u>60</u>

Total Due From Others	<u>\$ 4,666</u>
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Money Due To Others:

2002 Fee Account	\$ 9,379
Board Of Education	<u>156</u>

Total Due Others	<u>\$ 9,535</u>
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When personal funds of \$273 are deposited in the official tax account, the above collections and distributions, along with the available tax bank account cash of \$4,596, will be sufficient to close the Sheriff's tax account for tax year 2002. We recommend the Sheriff collect the above \$4,666 of receivables and, combined with the personal funds of \$273 and the available cash of \$4,596, pay the listed \$9,535 of money owed.

*Sheriff's Response:*

*None.*

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$240,711 To Protect Deposits

On November 5, 2002, \$240,711 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*None.*

ROCKCASTLE COUNTY  
SHIRLEY SMITH, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of January 5, 2003  
(Continued)

The Sheriff Should Pay Gross Tax Collections To The Board Of Education

KRS 160.510 requires the Sheriff to pay gross tax collections to the board of education. The board of education then shall pay tax commission to the Sheriff as provided for in KRS 160.500. The Sheriff delivered six tax reports to the Rockcastle County Board of Education. However, the Sheriff did not pay gross tax collections on any of the monthly reports to the school district. We recommend the Sheriff pay gross tax collections to the board of education as required by KRS 160.510. The board of education should then pay the tax commission to the Sheriff.

*Sheriff's Response:*

*None.*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

*Sheriff's Response:*

*None.*

PRIOR YEAR:

The Sheriff Should Make Monthly Reports To The School District

*This comment has been corrected.*

Lacks Adequate Segregation Of Duties

*This comment is repeated in the current year.*

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Rockcastle County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated November 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Rockcastle County Sheriff's Settlement -2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Close His Tax Account By Collecting All Receivables And Paying All Liabilities Owed
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$240,711 To Protect Deposits
- The Sheriff Should Pay Gross Tax Collections To The Board Of Education

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Ross & Company", is written over a light blue horizontal line.

Ross & Company, PLLC

Audit fieldwork completed -  
November 18, 2003



